

## Message Text

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ACTION SS-25

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9212

C O N F I D E N T I A L LONDON 02778

EXDIS

E.O. 11652: XGDS-1

TAGS: ENRG UK

SUBJECT: NORTH SEA OIL: EXXON POSITION ON MAJORITY  
STATE PARTICIPATION

REF: LONDON 2170

1. DEAN (PRESIDENT, ESSO EUROOE) TELLS US EXXON POSITION OF OPPOSITION TO MAJORITY STATE PARTICIPATION REMAINS ESSENTIALLY UNCHANGED. IN BRIEF, PARTICIPATION IS SEEN AS A CHARADE AND THUS SUBJECT TO RISK OF RIDICULE AND CHALLENGE BY CONSERVATIVES AND CERTAINLY BY LABOR LEFT WING AND SCOTTISH NATIONALISTS. EXXON HOPES HMG MAY DECIDE IT HAS ENOUGH ON ITS PARTICIPATION PLATE TO HANDLE WITHOUT PRESSING EXXON AND ITS PARTNER SHELL TO ACCEPT FULL ARRAY OF PARTICIPATION TRAPPINGS REQUIRED OF SMALLER COMPANIES. NONETHELESS, ON BASIS OF TALK WITH CHIEF PARTICIPATION NEGOTIATOR HAROLD LEVER, DEAN RECOMMENDED TO EXXON BOARD OF DIRECTORS THAT COMPANY EXPRESS WILLINGNESS TO CONSIDER GIVING HMG AN OPTION TO BUY UP TO 51 PERCENT OF OIL PRODUCED FROM A PARTICULAR FIELD, BEGINNING, FOR EXAMPLE, FIVE TO EIGHT YEARS AFTER INITIAL PRODUCTION. EXXON HAS NOT YET DISCUSSED OR ACTED ON DEAN RECOMMENDATION. DEAN TELLS US HE HAS BEEN ENCOURAGED ALONG THESE LINES BY LEVER WHO BELIEVES HIS CABINET COLLEAGUES COULD BE PERSUADED TO ACCEPT SUCH AN ARRANGEMENT (SEE REFTEL).

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2. IN RESPONSE TO OUR QUERY, DEAN SAID HE WAS NOT PRE-

PARRED TO RECOMMEND ACCEPTANCE OF OTHER ASPECTS OF PARTICIPATION PACKAGE WHICH WOULD AFFORD HMG 51 PERCENT EQUITY OR VOTING RIGHTS UNDER THE LICENSE OPERATING AGREEMENT. AS A FALL BACK POSITION, HOWEVER, HE THOUGHT COMPANY MIGHT ACCEPT PRESENCE AT OPERATOR OR MANAGEMENT COMMITTEE MEETINGS OF BRITISH NATIONAL OIL CORPORATION (BNOC) PERSONNEL FOR PURPOSE OF SATISFYING THEIR DESIRE TO ACQUIRE SOME PRACTICAL EXPERIENCE. HE NOTED THAT AS A PRACTICAL MATTER SHELL/ESSO DO NOT HAVE ANY SUCH COMMITTEES, WOULD HAVE TO INVENT ONE AND THEREBY SLOW DOWN DECISION-MAKING PROCESS.

3. COMMENT: ONE PURPOSE IN DEAN'S SUPPORTING OPTION PROPOSAL IS TO TRY AND SOFTEN COMPANY'S HARD LINE IMAGE WHICH HAS BEEN SUBJECT TO CRITICISM BY VARIOUS HMG OFFICIALS AND MUCH OF BRITISH PRESS. ANOTHER PERHAPS MORE IMPORTANT CONSIDERATION IS EXXON'S DESIRE TO BE CONSIDERED FOR FIFTH ROUND OF OFFSHORE LICENSING EXPECTED LATER THIS YEAR--BUT NOT AT PRICE OF ACCEPTING FULL HMG PARTICIPATION IN EXISTING LICENSES. THIS IS FIRST INDICATION WE HAVE SEEN THAT EXXON MAY RECONSIDER WHETHER IT IS WELL ADVISED TO SIT BACK AND WAIT UNTIL DUST SETTLES BEFORE GIVING SOME SIGN OF FLEXIBILITY ON PARTICIPATION ISSUE.

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## Message Attributes

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